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BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D. C.

Joint Application of

DELTA AIR LINES, INC.
SOCIETE AIR FRANCE
ALITALIA-LINEE AEREE ITALIANE-S.p.A.
CZECH AIRLINES

under 49 USC 41308 and 41309 for approval of and antitrust immunity for alliance agreements

OST-2001-10429-30

ANSWER OF AMERICAN AIRLINES, INC.

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October 3, 2001

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WASHINGTON, D. C.

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ANSWER OF AMERICAN AIRLINES, INC.

American Airlines, Inc., pursuant to the Department's scheduling notice of September 17, 2001, hereby answers the captioned application for antitrust immunity submitted on August 15, 2001 by Delta Air Lines, Inc., Societe Air France, Alitalia-Linee Aeree Italiane-S.p.A., and Czech Airlines.

We do not oppose that application, provided that the American/British Airways application for antitrust immunity, submitted on August 10, 2001 in OST-2001-10387, is contemporaneously granted. It would be contrary to the public interest in maximizing global network competition for the Department to authorize an immunized alliance for Delta and its partners, while denying the same status to American and British Airways.

I. THE ARGUMENTS FOR ANTITRUST IMMUNITY SET FORTH BY DELTA/AIR FRANCE/ALITALIA/CZECH APPLY WITH EQUAL FORCE TO THE AMERICAN/BRITISH AIRWAYS APPLICATION

Throughout their application, Delta and its partners make a number of policy arguments in support of antitrust immunity as the foundation of a global network alliance. Each of these arguments applies with equal force to the American/ British Airways immunity application in OST-2001-10387.

- "The proposed alliance between and among Delta, Air France, Alitalia, and CSA marks an important step toward bringing enhanced competition and efficiency to the transatlantic and worldwide air transportation marketplace. Antitrust immunized alliances, in combination with the open skies bilateral agreements they necessarily entail, have transformed the level, quality, and competitiveness of international air service. Carriers now compete for international passengers on a broad network-to-network basis" (p. 2).

- "The importance of improved alliance network competition is underscored by the Department's own recent report on <u>International Aviation Developments</u>, which concluded that 'alliance-based networks are the principal driving force behind transatlantic price reductions and traffic gains.' Approval of the alliance agreements and the grant of antitrust immunity will enable the joint applicants to form a new alliance that will significantly increase alliance-based network competition" (p. 3).

o "In the absence of immunity, it would be impossible for the carriers to engage in the close level of coordination necessary to integrate their activities into a truly effective alliance network. * * * [A]ntitrust immunity is necessary to achieve the pro-competitive and pro-consumer benefits of the proposed alliance" (pp. 3-4).

o "Approval of the joint application is also necessary to achieve the important international policy objective of full open skies between the United States and France" (p. 4).

o "Delta, Air France, Alitalia, and CSA consider their alliance to be of vital strategic importance as they strive to compete with other transatlantic alliances. Indeed, Air France, Alitalia, and CSA consider that entering into an immunized transatlantic alliance with Delta is essential to their long-term competitive viability" (p. 4).

o "Uniform, consistent, and fair application of regulatory policy requires the Department to accord the same legal authority to the joint applicants (i.e., antitrust immunity) that has already been afforded to...[other] European alliance[s].... To do otherwise would create a double standard placing the joint applicants at a competitive disadvantage against the other immunized alliances" (p. 5).

o "The Delta/Air France/Alitalia/CSA agreements are fully consistent with longstanding U.S. international aviation policy, which has encouraged global arrangements between U.S. and foreign carriers in order to benefit consumers and enhance competition. See Statement of United States International Air Transportation Policy, 60 Fed. Reg. 21841, May 3, 1995" (p. 6).

o "Substantial public benefits will accrue from an integrated alliance among Delta, Air France, Alitalia, and CSA. Those benefits, which closely mirror those achieved by other, previously immunized transatlantic alliances, include the ability to provide passengers and shippers with greater choice and improved, seamless service throughout an expanded international alliance route network..." (p. 16).

o "The full network benefits of the Delta/Air France/Alitalia/CSA alliance cannot be realized absent the Department's grant of antitrust immunity. The Department has acknowledged that, without antitrust immunity, airlines may be prevented from forming alliances which offer significant competitive and efficiency benefits" (p. 18).

o "There is vigorous competition in the U.S.-Europe marketplace, with dozens of carriers operating hundreds of flights across the Atlantic" (p. 21).

o "The past several years have witnessed a remarkable expansion of airline service to and from the United States. Secretary Mineta has affirmed that he is 'committed to pursuing all reasonable options for moving international aviation liberalization forward,' and approval of the joint applicants' request is fully consistent with that objective. The commercial benefits of antitrust immunized alliances have proved a powerful tool for persuading restricted countries to open their doors to open skies, which, in turn, has put pressure on neighboring countries to do the same" (p. 30).

o "The Department has recognized that the progress of its open skies policy and the development of a series of competing international alliance networks are inextricably linked. Thus, in effect, the cultivation of such alliances has become a U.S. aviation policy objective. The Department recently found that 'one of the major public benefits resulting from our success in signing open skies aviation agreements around the globe is the creation of new competitive airline alliances that we are now seeking to provide global aviation services. Markets in Asia, Europe, and North America are now an integral part of existing competing airline networks'" (p. 31).

o "By this application, Delta, Air France, Alitalia, and CSA propose to add another competitive alliance to the global scene, providing additional travel options to consumers and disciplining the alliances that are already in place" (p. 31).

Every one of these statements is equally true for the immunized American/British Airways alliance proposed in OST-2001-10387. The Department's goal of maximizing global network competition can only be fulfilled by increasing the number of immunized alliances. The Department has already granted antitrust immunity to the principal transatlantic partners in the Wings alliance (Northwest and KLM) and in Star (United, Lufthansa, SAS, Austrian, and Lauda), and now has the opportunity to expand network competition exponentially by granting immunity to the principal transatlantic partners in oneworld (American and British Airways) and SkyTeam (Delta, Air France, Alitalia, and Czech). As Delta and its partners have aptly stated, "[t]o do otherwise would create a double standard placing the joint applicants at a competitive disadvantage against the other immunized alliances" (p. 5). Such uneven treatment would run directly counter to the Department's policy of maximizing network competition, and would be contrary to the interest of the traveling and shipping public.

II. THE PROPOSED DELTA/AIR FRANCE/ALITALIA/CZECH AND AMERICAN/BRITISH AIRWAYS IMMUNIZED ALLIANCES ARE COMPARABLE IN SIZE AND SCOPE

The immunized alliance that Delta has proposed with its European partners is comparable in size and scope to the proposed alliance of American and British Airways. Indeed, Delta has made a number of claims that its proposed alliance is superior,[1] which, if credited, would make the case for contemporaneous grant of antitrust immunity to American and British Airways even more compelling in order to ensure vigorous network competition on a level playing field.

- Delta/Air France/Alitalia/Czech contend that "the U.S.-Europe market is the appropriate relevant market for analyzing the competitive effect of the alliance" (p. 19). American and British Airways agree, and urge that the same relevant market test should be used in OST-2001-10387. As shown in Exhibit AA-1, Delta's proposed alliance and the American/British Airways alliance have approximately the same number of frequencies between the U.S. and Europe, command an equivalent number of passenger bookings, and serve a comparable number of U.S. and European cities. Both alliances will enhance U.S.-Europe competition, and both should be immunized

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[1]See Confidential Addendum, which cites Delta's confidential documents. The Confidential Addendum is being submitted separately under a motion for confidential treatment, and will be made to persons who have filed proper affidavits under 14 CFR 302.12.

to achieve maximum network competition. Indeed, as shown in Exhibit AA-2, the American/British Airways alliance will provide competitive discipline against the Delta alliance in 120 U.S. cities and 72 European cities served by both arrangements.

As the Department found in Order 2000-10-13, October 13, 2000, p. 10 (SAS/Icelandair), "[t]he U.S.-Europe marketplace is highly competitive. Eight U.S. airlines provide scheduled passenger service in this market from their hubs, either individually or in conjunction with an existing alliance. The U.S.-Europe market is also served by more than 30 foreign airlines, principally from hubs in their homelands." In these circumstances, the proposed integration of transatlantic operations by Delta, Air France, Alitalia, and Czech, on the one hand, and American and British Airways, on the other, will enhance competition in the U.S.-Europe market by increasing their ability to compete against each other, and against other carriers and alliances.

o At the country-pair level, Delta and its partners have a comparable or stronger position in the U.S.-France and U.S.-Italy markets than American and British Airways have in the U.S.-U.K. market. As shown in Exhibit AA-3, the Delta alliance commands a 40% share of U.S.-France passenger bookings and 45% of U.S.-Italy bookings, whereas American and British Airways have a 41% share of U.S.-U.K. bookings.

o At the European hub level, Delta and its partners have a comparable or stronger position at Paris, Milan, Rome, and Prague than American and British Airways have at London Heathrow. As shown in Exhibit AA-4, the Delta alliance generally has a larger share of seats in its U.S.-European hub markets than the American/British Airways alliance has from its hubs. For example, the Delta alliance enjoys a U.S. nonstop seat share 68% at Milan, 56% at Paris, 52% at Rome, and 100% at Prague, compared to the American/British Airways seat share of 59% at London Heathrow.

o Even at the level of overlapping nonstop city-pairs, Delta and its partners have a comparable or higher share in the Atlanta-Paris, New York-Paris, New York-Milan, and New York-Rome overlap markets than American and British Airways have in the New York/Boston/Chicago/Los Angeles/Miami/Dallas/Ft. Worth-London overlap markets. As shown in Exhibit AA-5, on average the American/British Airways alliance has a 47% share of passenger bookings in its overlapping city-pair markets, whereas the Delta alliance has a 63% average share. The fact that the American/British Airways alliance has an average bookings share that is 16 points lower than the Delta alliance in overlap markets is startling, given that the London market is constrained by Bermuda 2, whereas the European hubs in the Delta alliance either already enjoy open skies (Italy and the Czech Republic), or almost do (France).

o Of course, for reasons we have explained in the American/British Airways immunity application in OST-2001-10387, we do not believe that relative market shares, and the relative concentration of those shares, are necessarily the only or most important metric the Department should consider in assessing the competitive effects of alliances. Other factors, such as available capacity on other airlines to accommodate passengers who would be willing to switch in the event of an unwarranted price increase, are also important.

o We agree with Delta/Air France/Alitalia/Czech that the New York gateway is a special case, due to its "unique and highly competitive nature," including "the large number of local O&D passengers traveling between New York and points in Europe" which make point-to-point service feasible "without supporting network feed" (pp. 27, 28). As shown in Exhibit AA-6, the New York-London market is far denser than the New York-Paris, New York-Milan, and New York-Rome markets. Indeed, New York-London already has a very large number of nonstop competitors, more than any other U.S.-Europe route. Moreover, with 2.4 million annual O&D passengers, the New York-London market is approximately three times larger than the New York-Paris market, six times larger than the New York-Rome market, and eight times larger than the New York-Milan market (Exhibit AA-6). We also agree that carve-outs at New York would "greatly impair the efficiency of...alliance[] operations" (p. 28), and should not be imposed on either the Delta/Air France/Alitalia/Czech or American/British Airways alliances.

o Finally, on a global brand alliance basis, Delta's SkyTeam alliance is growing rapidly, and is catching up with American's oneworld alliance in terms of annual passengers, operating revenue, departures, destinations served, revenue passenger miles, and fleet size (Exhibit AA-7).

Accordingly, there is no basis for disparate treatment of the Delta/Air France/Alitalia/Czech and American/British Airways applications for antitrust immunity. The two alliances are comparable in size and scope, and both should be approved contemporaneously to maximize network competition.

III. OPEN SKIES IN THE U.S.-U.K. MARKET WILL YIELD FAR GREATER PUBLIC BENEFITS THAN OPEN SKIES IN THE U.S.-FRANCE MARKET

The United States does not presently have an open skies agreement with either France or the United Kingdom. Both the Delta/Air France/Alitalia/Czech and American/British Airways applications are premised on the achievement of such agreements.[2] In that respect, the two applications are similarly situated. However, there can be no doubt that an open skies agreement between the U.S. and the U.K. will yield far greater competitive and other public benefits than an open skies agreement between the U.S. and France.

U.S.-France open skies will result in little practical change in service between the two countries. Even before the attacks on September 11, 2001, more frequencies were available than were being used; 14 additional frequencies become available on April 1, 2002; and all frequency restrictions will be lifted on April 1, 2003. The limit of five U.S. carriers at the New York gateway is not a real constraint in view of United's dormant designation. Pricing is already unrestricted. In these circumstances, an open skies agreement with France, in itself, is unlikely to result in any new service in the U.S.-France market.

The public interest benefits of U.S.-U.K. open skies, by contrast, will be very significant. The U.S.-U.K. market is one of the largest air travel markets in the world, and is approximately three times larger than the U.S.-France and U.S.-Italy markets, based on passenger bookings for the year ended

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[2]The United States already has open skies agreements with Italy and the Czech Republic. Accordingly, the Delta alliance will not serve as a catalyst for liberalization with these countries.

December 31, 2000. Bermuda 2, in force since 1978, contains limits on entry, capacity, gateways, and pricing, all of which will be removed by a historic open skies agreement. The density of U.S.-U.K. demand, coupled with the large number of existing competitors (including British Midland, a second Heathrow hub carrier in Star), is certain to attract entry by new competitors and to cause expansion by existing ones. All of these carriers will compete with the American/British Airways alliance in a new market environment with increased freedom.

IV. PROMPT APPROVAL OF BOTH APPLICATIONS IS REQUIRED TO ENHANCE THE CARRIERS' CONTINUED VIABILITY IN THE GLOBAL MARKETPLACE

As noted above, "Delta, Air France, Alitalia, and CSA consider their alliance to be of vital strategic importance as they strive to compete with other transatlantic alliances. Indeed, Air France, Alitalia, and CSA consider that entering into an immunized transatlantic alliance with Delta is essential to their long-term competitive viability" (p. 4). American and British Airways likewise consider their proposed alliance to be of vital importance and essential to their long-term competitive viability.

CONCLUSION

The Department should grant antitrust immunity to both the Delta/Air France/Alitalia/Czech and American/British Airways alliances, and should do so contemporaneously.

Respectfully submitted,

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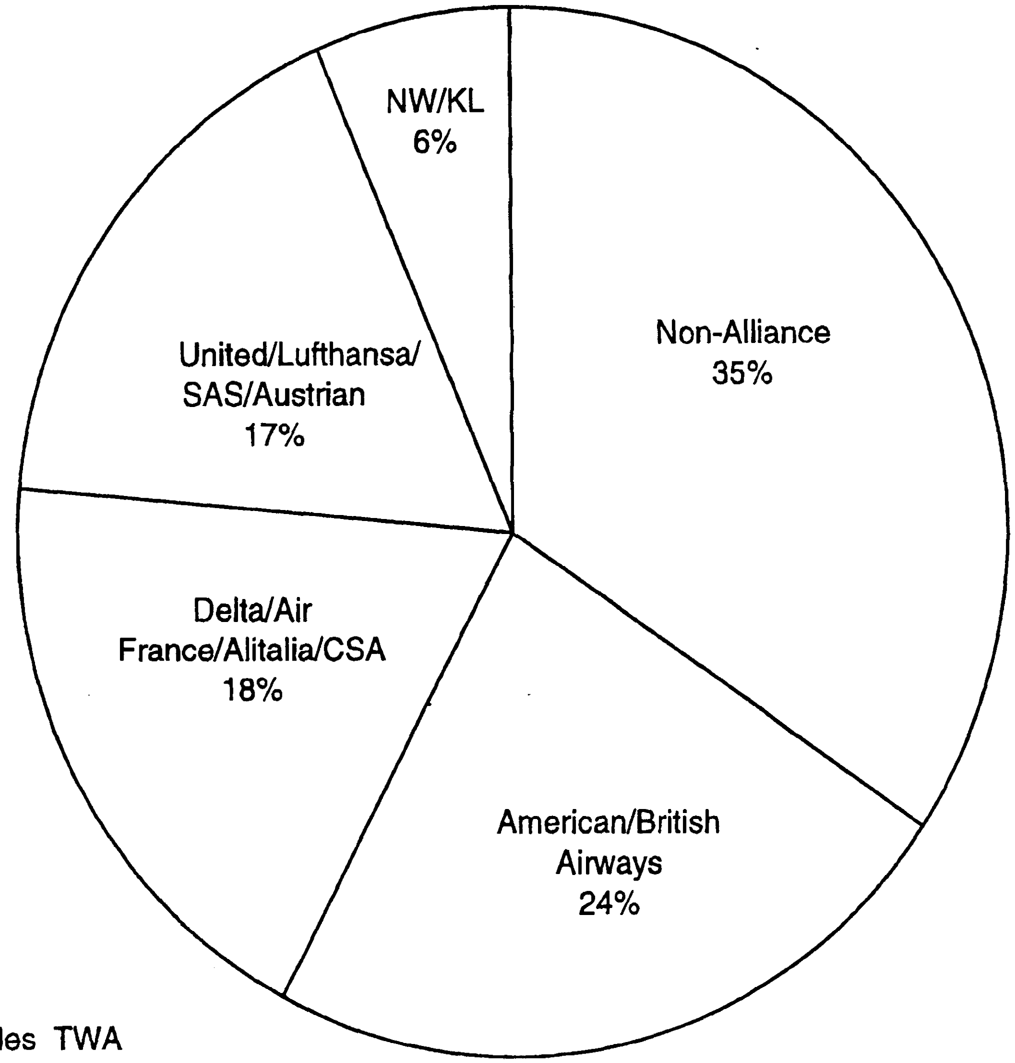
October 3, 2001

The American / British Airways Alliance Is Comparable In Size To Delta's Transatlantic Alliance

U.S. - Europe Nonstop Frequencies

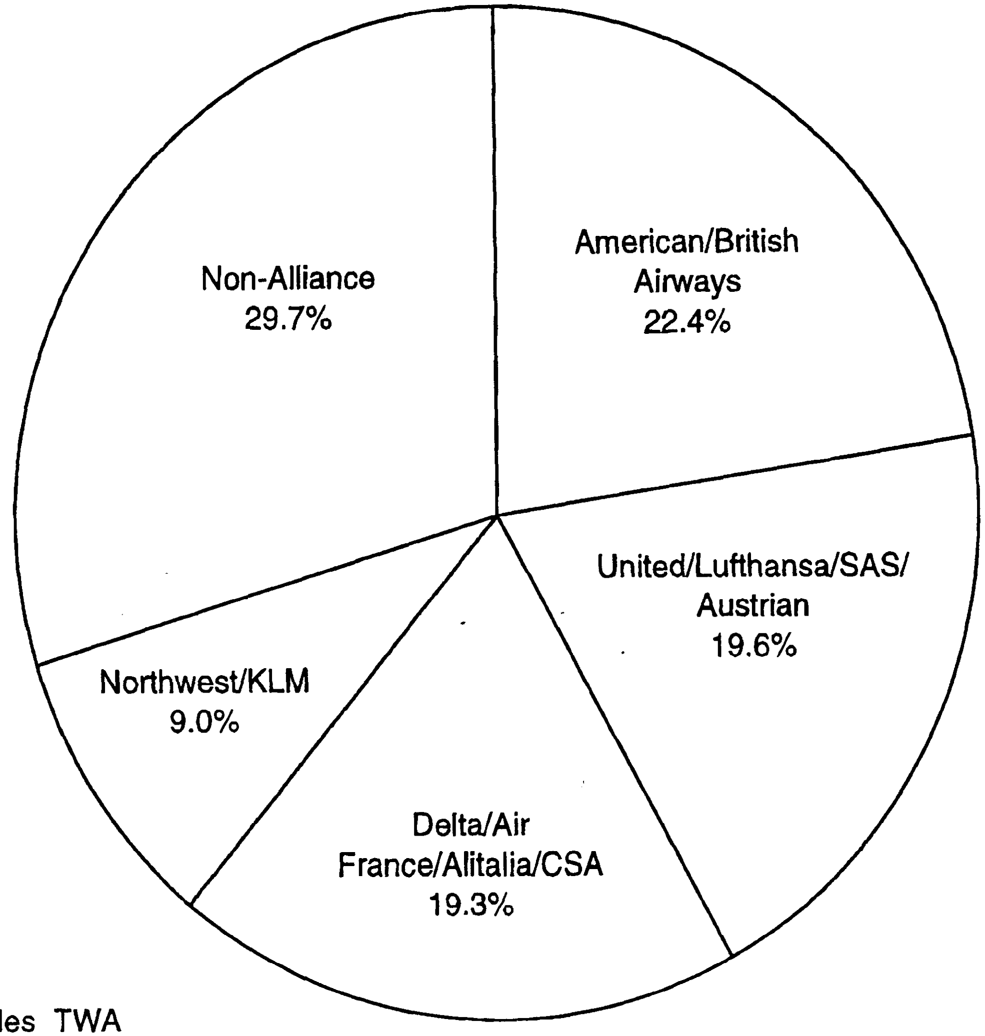


Note: American includes TWA

Source: OAG Jan-Dec, 2000

The American / British Airways Alliance Is Comparable In Size To Delta's Transatlantic Alliance

U. S. - Europe Bookings

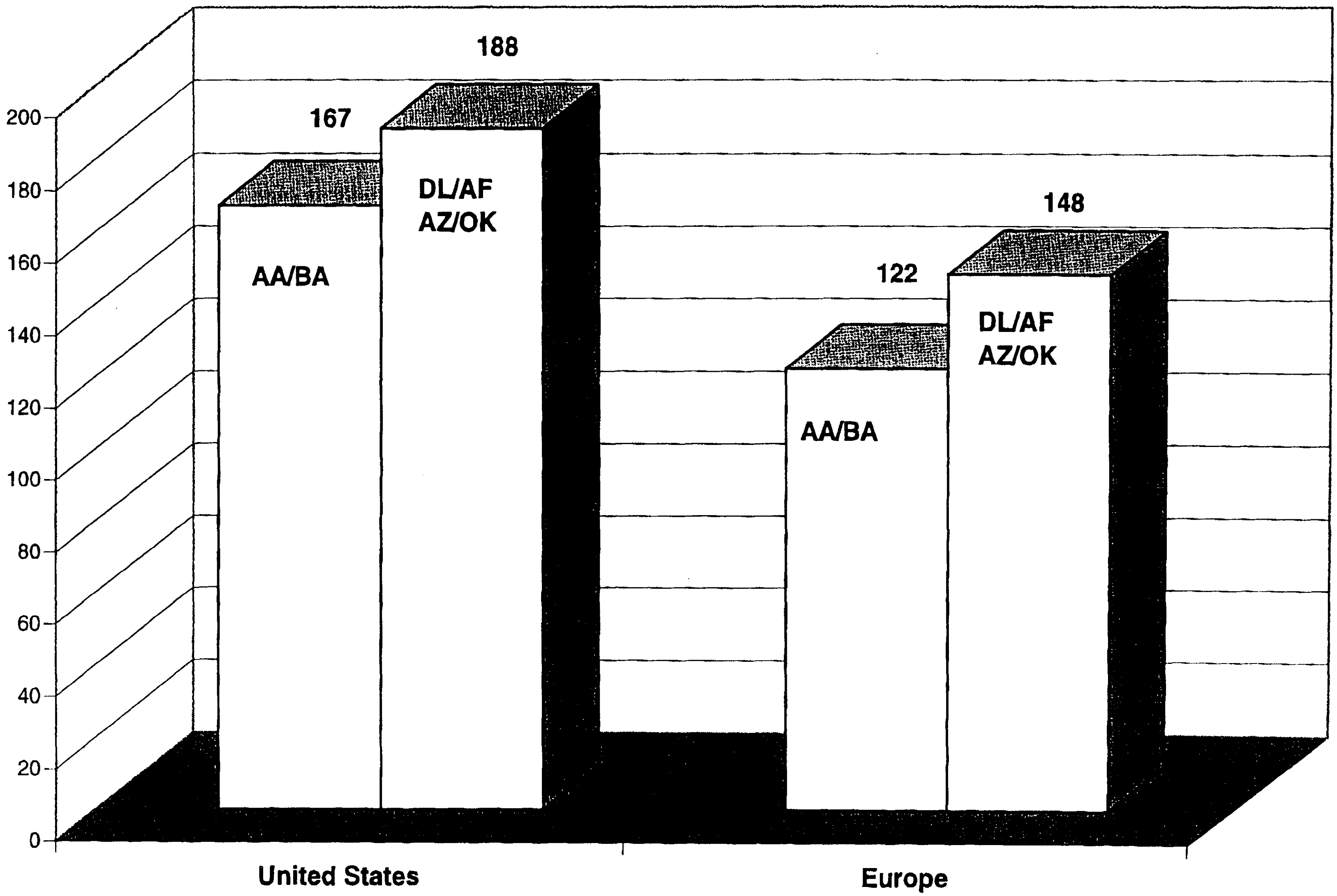


Note: American includes TWA

Source: ConCRS, Interline Connections
Year Ending April 2000

The American / British Airways Alliance Is Comparable In Size To Delta's Transatlantic Alliance

U.S. And European Cities Served

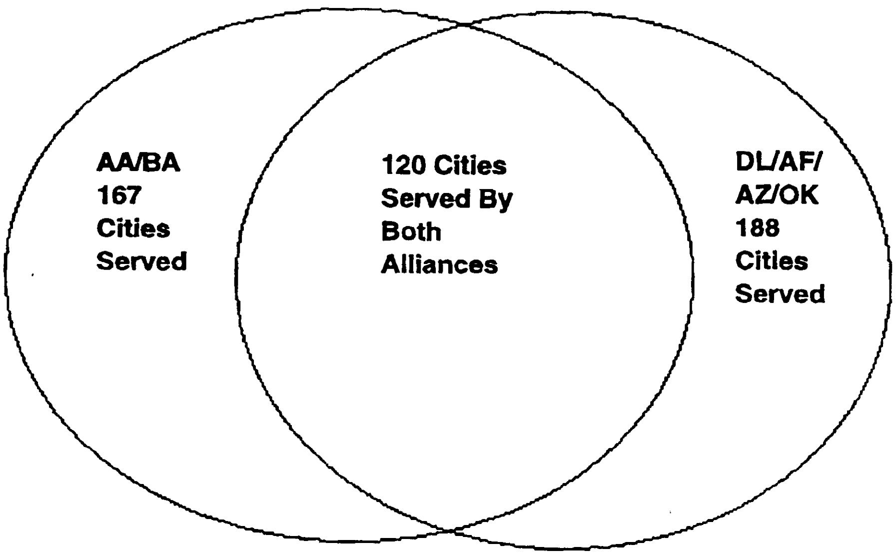


Note: Includes cities served by regional affiliates

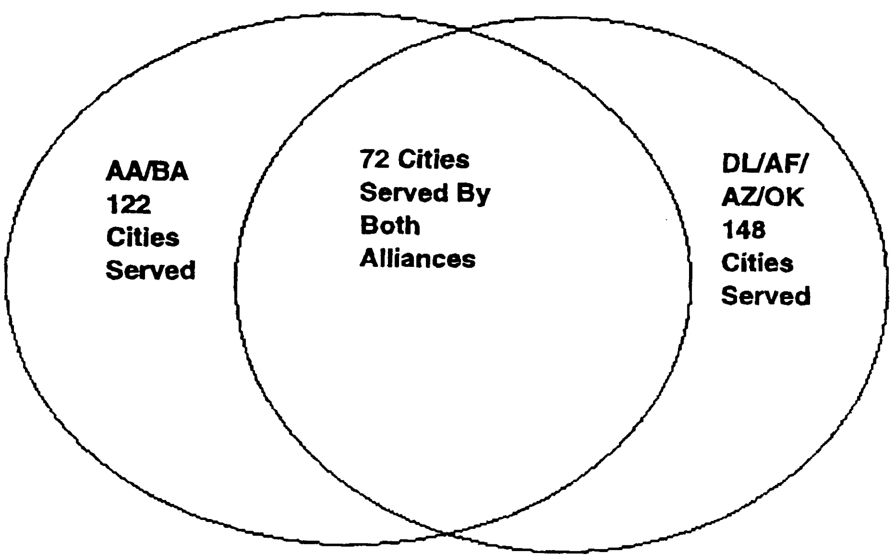
Source: OAG June, 2001.

The American / British Airways Alliance Will Provide Competitive Discipline To Delta's Transatlantic Alliance At A Large Number Of U.S. And European Cities

U.S. Cities Served



European Cities Served

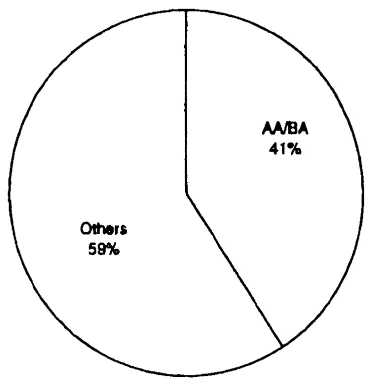


Note: American includes TWA

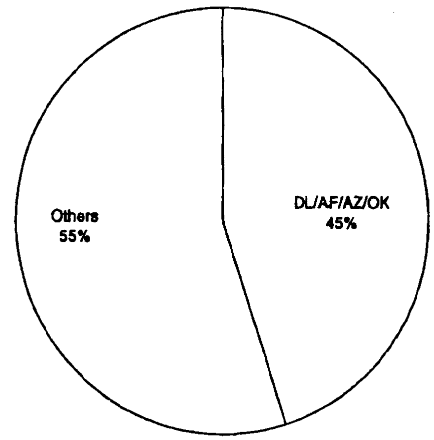
Source: OAG, June 2001

U.S. - Home Country Market Shares: Alliance Share Of Passenger Bookings

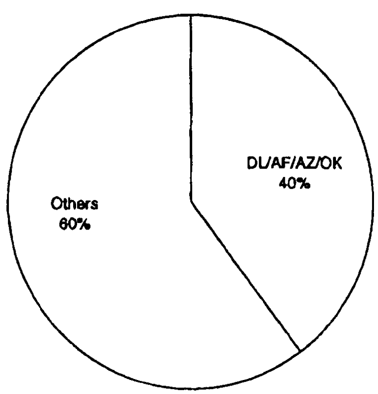
U.S. - U.K.



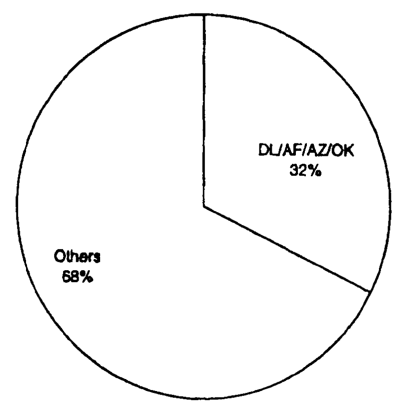
U.S. - Italy



U.S. - France



U.S. - Czech Republic

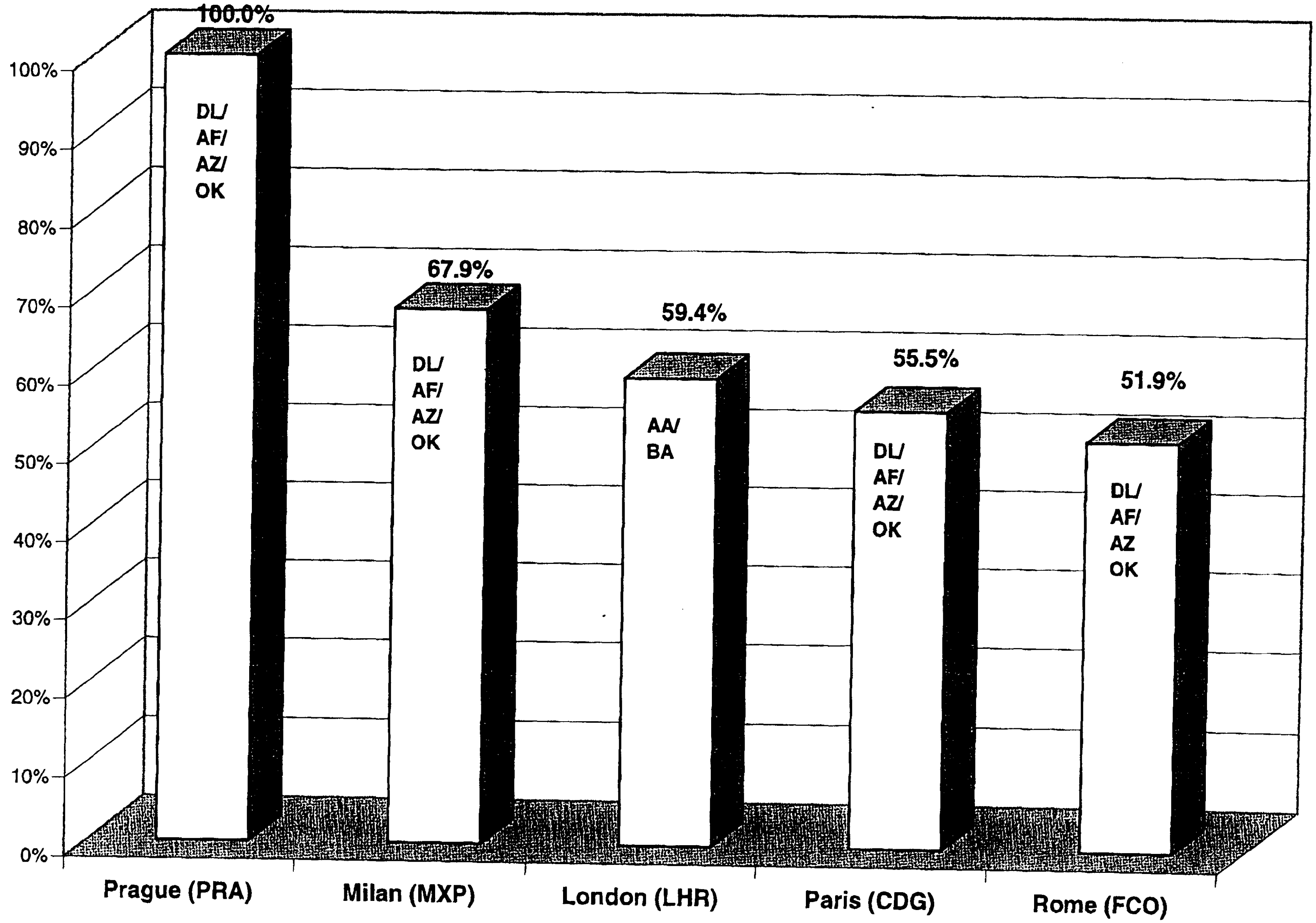


Note: American includes TWA

Source: ConCRS Jan-Dec, 2000

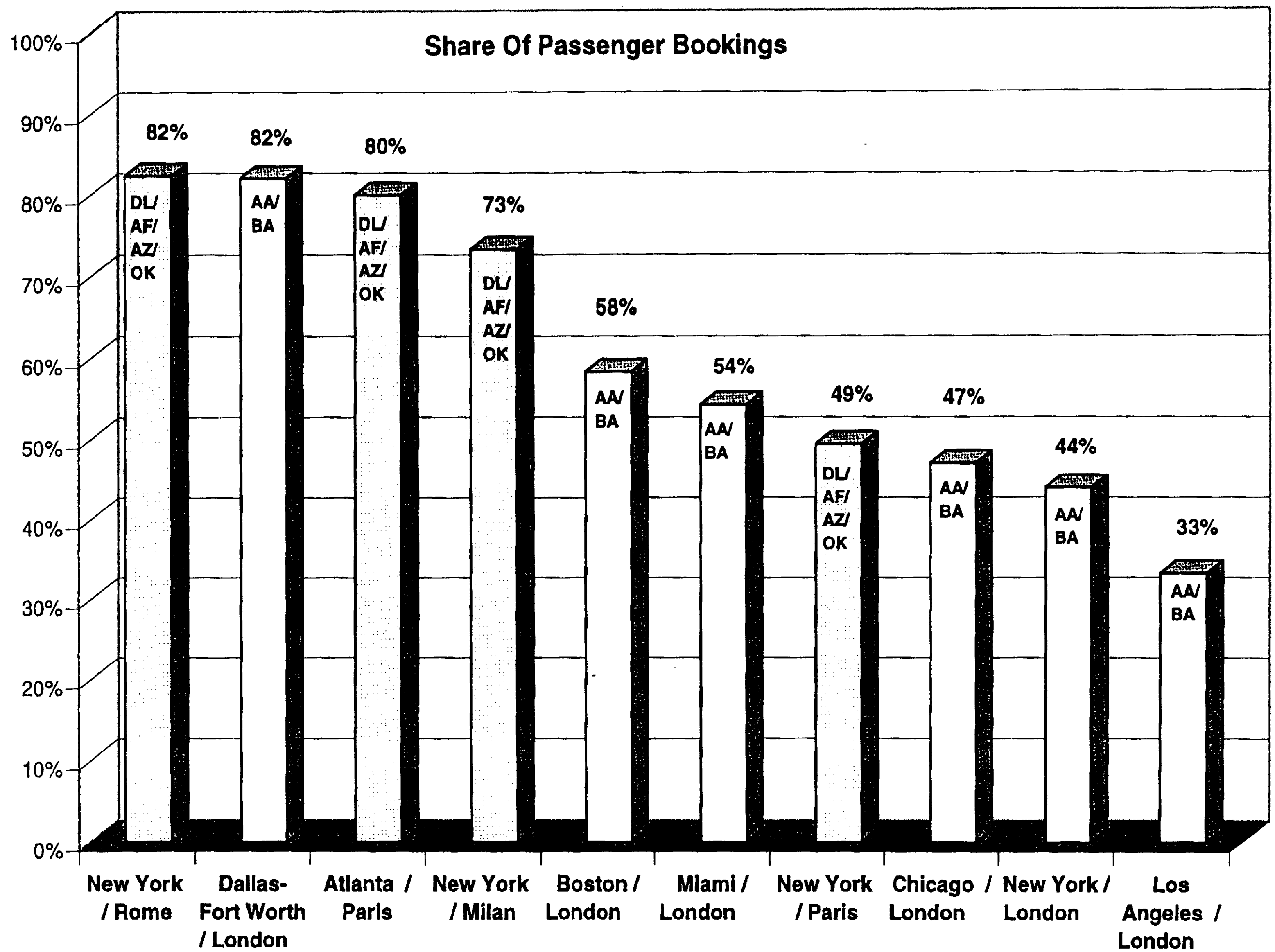
U.S - European Hub Market Shares

Percentage of Nonstop Seats



Source: OAG, YE June 2001

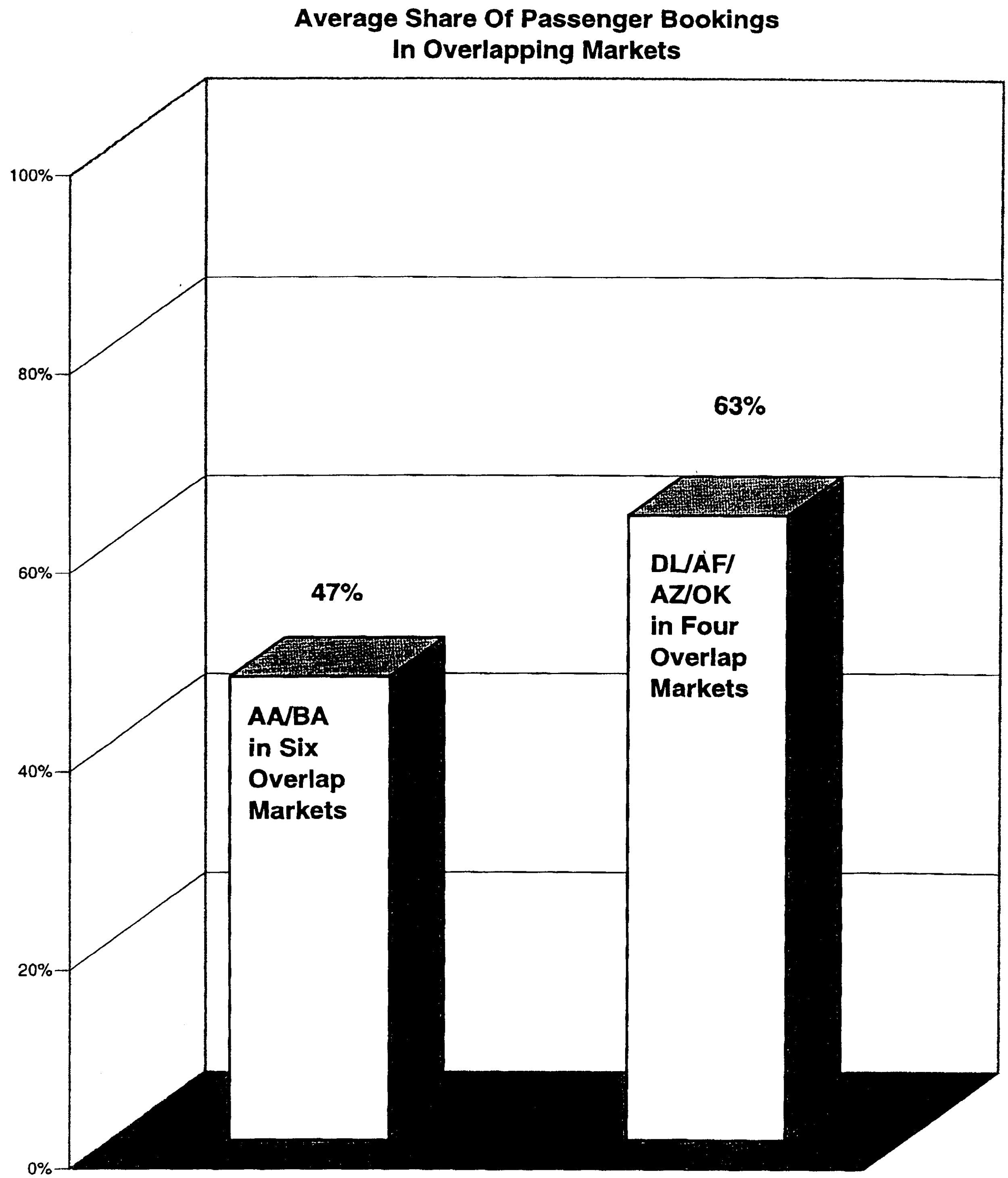
Alliance Overlap City - Pairs



Note: American includes TWA
O+D markets include multiple airports serving the same city

Source: ConCRS Jan-Dec, 2000

Alliance Overlap City Pairs

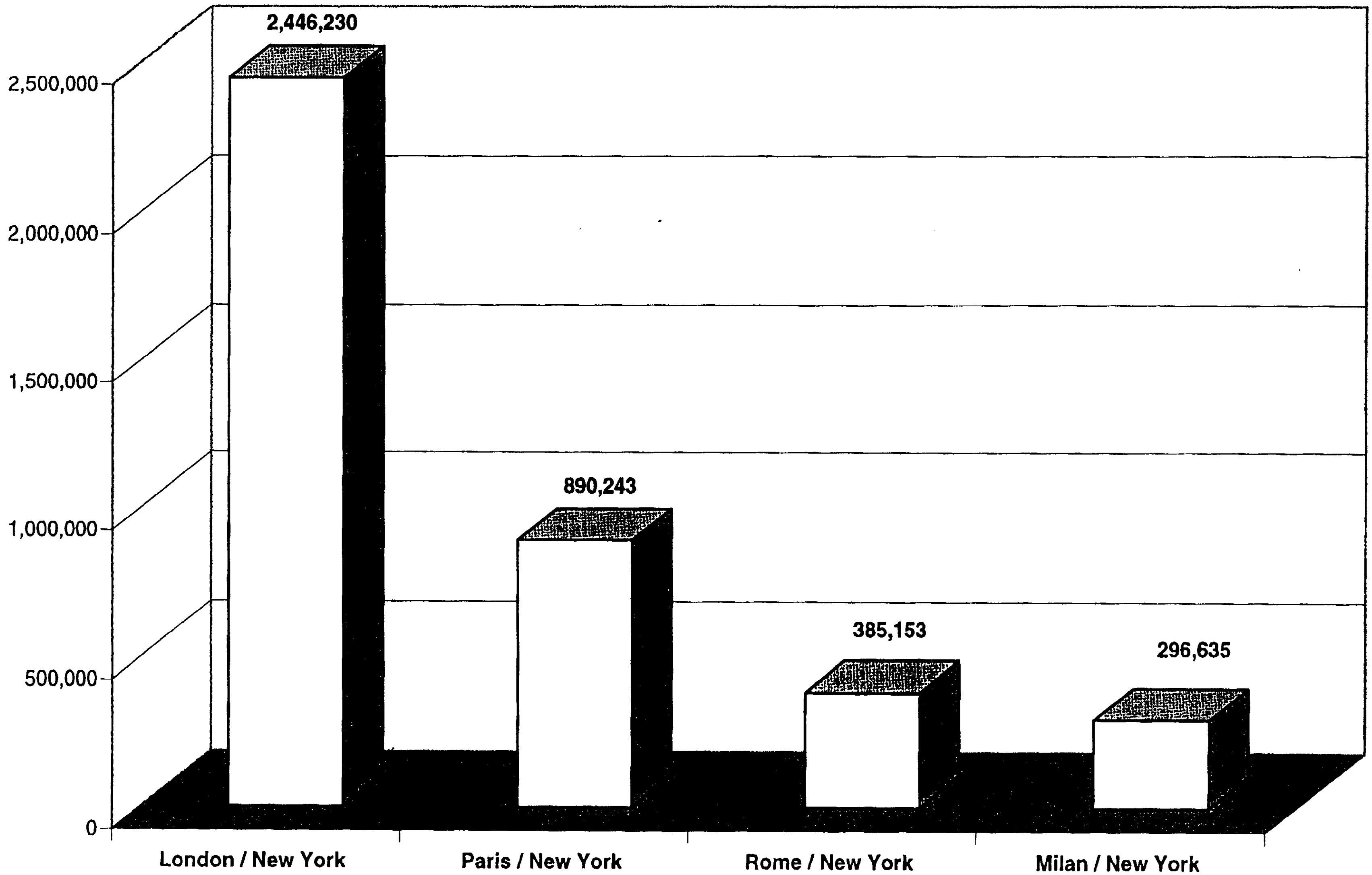


Note: American includes TWA
O+D markets include multiple airports serving the same city
Averages are weighted by passenger bookings. Without weightings, the Delta alliance's average share would be even larger at 71% and AA/BA's would be 53%

Source: ConCRS Jan-Dec, 2000

The New York - European Hub Overlap Markets

Total O+ D Market Size



Note: O+D markets include multiple airports serving the same city

Sourec: ConCRS Jan - Dec, 2000

Comparison Of SkyTeam And oneworld Alliances

Alliance	Airlines	Operating Revenue ($ millions)	Annual Passengers (000)	Unduplicated Destinations Served	RPM's (millions)	Fleet
SkyTeam	Aeromexico	1,272	9,749	65	8,922	70
	Air France	10,219	41,667	188	57,705	369
	CSA Czech	390	2,217	59	2,042	30
	Delta	16,700	105,645	240	107,515	841
	Korean	4,900	21,938	68	25,090	115
	Alitalia	5,034	25,591	96	25,183	168
	Alliance Total	38,515	206,807	492	226,456	1,593
oneworld	Aer Lingus	990	6,639	28	5,511	38
	American/TWA	23,288	124,885	361	139,943	1205
	British Airways	13,427	43,801	226	75,324	374
	Cathay Pacific	4,421	11,844	45	29,200	69
	Finnair	1,514	6,024	64	4,625	58
	Iberia	3,642	24,919	101	24,809	159
	Lan Chile	1,425	4,632	43	6,470	45
	Qantas	5,485	17,815	91	39,367	159
	Alliance Total	54,192	240,559	586	325,250	2,107

Source: IATA WATS 2001
Reed Air Transport Intelligence
Company Sources

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document by fax or first-class mail on all persons named on the attached service list.

Carl B. Nelson Jr.

CARL B. NELSON, JR.

October 3, 2001

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